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BEFORE YOU PRINT DOCUMENTS. THANKS...

EP 85-3663

DDI 85-04906

30 SEP 1985

MEMORANDUM FOR: Director of Central Intelligence

VIA: Deputy Director of Central Intelligence  
Deputy Director for Intelligence

25X1 FROM:   
Director of Global Issues

SUBJECT: Evaluation of Pitts Energy Group Pamphlet

REFERENCE: Memo for D/OGI from DCI, dated 23 September 1985

Per your request, we have reviewed the pamphlet prepared by Lloyd Frank Pitts. Attached is our assessment. In general, we find the study to be overly alarmist and in some areas actually misleading or exaggerated. Although we have done no independent analysis of the impact of the Treasury tax plan, we believe it will have only a marginal impact on US oil production capabilities. (C NF)

25X1  
Attachments:

- A. Pitts Energy Group Pamphlet
- B. OGI Evaluation of Pamphlet

This memorandum is downgraded to CONFIDENTIAL NOFORN when separated from attachments.



DCI  
EXEC  
REG

25X1  
SECRET NOFORN

SUBJECT: Evaluation of Pitts Energy Group Pamphlet

25X1 OGI/SRD/EMB, [ ] (27 September 1985)

Distribution:

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Remarks

To 5: Please have comments on attached provided to DCI.

Executive Secretary

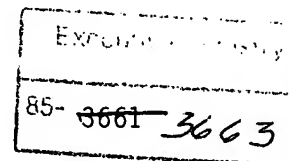
23 Sept 85

Date

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STAT

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23 September 1985

MEMORANDUM FOR: Director of Global Issues, DI  
FROM: Director of Central Intelligence  
SUBJECT: Oil

This was prepared by Lloyd Frank Pitts, owner of Pitts Oil  
and a member of the Dallas World Affairs Council [redacted]  
[redacted]. It was clearly prepared for lobbying purposes.  
Nevertheless, I will be interested in seeing how our petroleum  
experts think it stands up on the merits.

25X1  
25X1

William J. Casey

Attachment:  
Pamphlet as stated

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the No. 1 responsibility of the Federal Government

# AMERICA'S DEFENSE MUST NEVER BE COMPROMISED

Yet the U. S. Treasury's plan to purposely reduce American oil drilling and production, and their conclusion that America should depend on supplies of foreign oil could devastate U. S. national security!



"I KNOW, GENERAL, I KNOW! BUT WE'RE STILL WAITING FOR OUR IMPORTED FUEL TO GET HERE!"

# U.S. TREASURY TAX PLAN END

## A proposal to replace American oil with more Middle East

### ♦ A BUREAUCRATIC MISTAKE

In past years, the U.S. Treasury Department has developed energy tax policies by acting on facts researched by the Department of Defense, the State Department, the CIA, the Federal Reserve Board, the Council of Economic Advisors, the Commerce Department, the Department of Energy, the Department of Labor, and the Department of Agriculture, as well as its own studies. In a sharp departure from such historic wisdom, a maverick group of Treasury staff has set out to obtain Congressional approval for radical new tax policies which were designed in contradiction to the advice from other agencies. If enacted, these policies would be disastrous for American consumers and destructive to American foreign policy, economic stability, and national defense.

The U. S. Treasury tax reform proposal of 1985 advocates taxes designed to paralyze many independent oil operations. This unprecedented action is "rationalized" by the statement that "... *The capital and labor released from the energy and mineral sector ... would be employed more productively in other industries.*"

Citing national defense concerns, President Reagan has interceded and modified some of the most catastrophic parts of that original plan. Proponents of the original Treasury plan must not prevail. Congress must prove the error of Treasury spokesmen who have maintained that it makes no difference if some American oil producers are forced out of business. Their contention that our oil should be obtained elsewhere is wrong.

**Where is "Elsewhere"?** America buys oil today from 27 countries around the world. As much as possible (40% of total imports) comes from Mexico, Venezuela, Canada, and other Western Hemisphere countries. But those sources are near their maximum productive capacity. The only area in the world America and its allies can turn to for needed quantities of additional oil in the near term is the Middle East and North-east Africa. As a member of the International Energy Agency, the U. S. is even more vulnerable to shortages. The IEA involvement requires the U. S. to supply oil to its Western Europe and Japanese allies in the event their usual oil sources are interrupted.

The vast Middle East supplies are justifiably tempting and should be used, but to allow America to become overdependent on these huge, but politically unstable, supplies is to invite disaster. The Middle East has been described as "a time bomb with a perpetually burning fuse"; an area in which wars, sabotage, and general violence are a way of life. As the cradle of world terrorism, great nations are intimidated by the power of these small states. Overreliance by the U. S. on Middle East oil places strings on our foreign policy in exchange for keeping the oil flowing. It also increases the possibility of voluntary or involuntary cutoff of deliveries of oil by these oil producing countries. Such an interruption would seriously cripple the U. S. Armed Forces and put the American people in mortal danger.

### ♦ ALREADY IN THE RED Why Make It Worse?

Imported oil is already an intolerable drain on the American economy, representing over half of the 1984 trade deficit of \$123 billion. Yet the proposed U. S. Treasury tax policy would sharply increase this hemorrhage of American dollars. The Interstate Oil Compact Commission calculates that to gain \$4.2 billion in increased oil taxes for the Treasury coffers, America may initially lose 465 million barrels of production, which must be replaced with more than \$10 billion of additional imported oil.

**IMPORTED  
OIL KEEPS  
THE U.S.  
ECONOMY  
OFF BALANCE**

**AUTO IMPORTS  
AND OTHER TRANSPORTATION  
\$22 BILLION**

**METALS IMPORTS  
\$17 BILLION**

**ELECTRIC MACHINERY  
\$16 BILLION**

**APPAREL \$13 BILLION**

**THE 1984  
TRADE DEFICIT  
WAS \$123 BILLION**

NO WONDER THE

### ♦ IT'S NOT A PARTY ISSUE

In 1975, Treasury Secretary William E. Simon Told President Ford: "As a result of my investigation, I have found that crude oil (and related products) are being imported into the United States in such quantities as to threaten to impair the national security."

In 1979, Treasury Secretary W. Michael Blumenthal Told President Carter: "The continuing threat to national security... requires that we take vigorous action (to) encourage additional production of oil and other sources of energy... by providing appropriate incentives and eliminating programs and regulations which inhibit achievement of these important goals."

In 1979, Defense Secretary Harold Brown Told President Carter: U. S. oil vulnerability is "the single surest threat that the future poses to our security and to that of our allies."

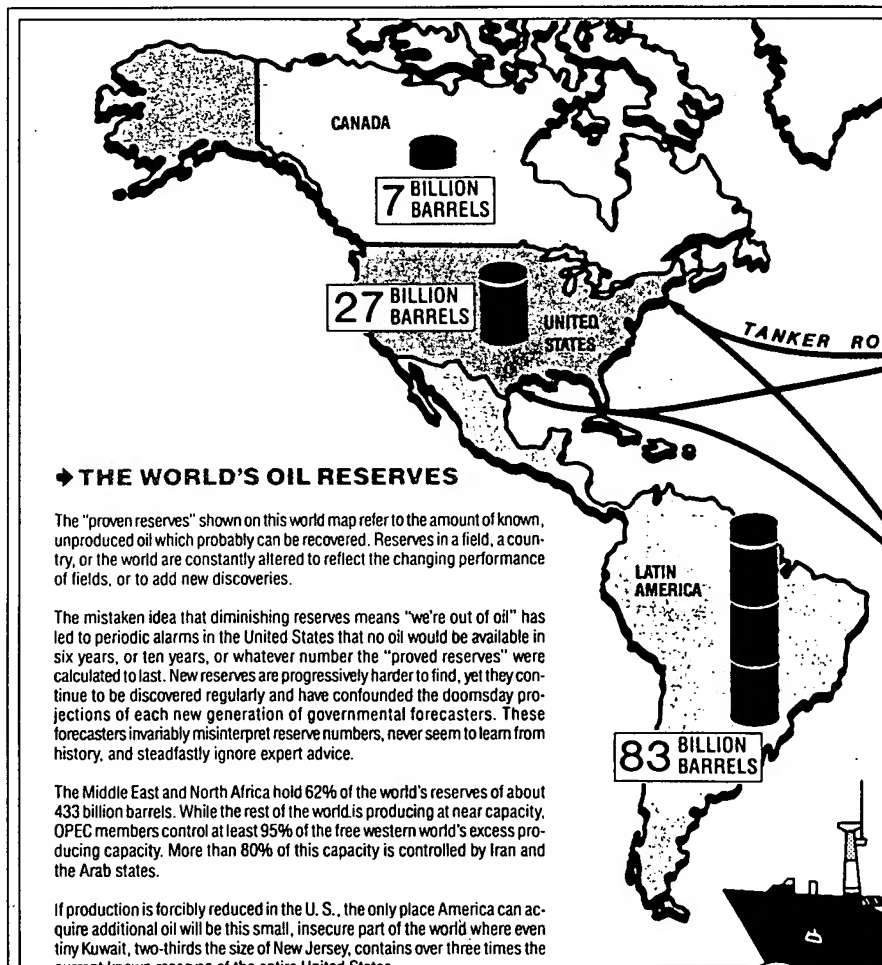
In June, 1985, Under Secretary of Defense Dr. Fred Ikle Told the Senate Finance Committee: Of the "requirements for assuring fuel supply for national security... First, we must continue to support a strong and efficient domestic oil industry. Our energy policy should recognize the need for continued exploration and development of energy supplies to avoid undue dependence on foreign supplies."

### ♦ THE LAW DEMANDS

"... The Secretary and the President... give consideration to our defense requirements... including the necessary to assure such growth..."

### Who Will Answer for

Treasury has little expertise, and no U. S. defense efforts, either directly or indirectly, Treasury's mistaken concept of attaining U. S. oil drilling and production is out of experts. Fortunately, the final decision is up to the United States Congress, whose members should be aware of the shortcomings in guarding America's



America will and should continue to import some of its oil, but a sound energy policy is needed to *avoid increasing imports*. Current U. S. production is 8.8 million barrels per day and imports have climbed to 5 million barrels per day. With only a 2% increase in demand, by 1994 the U. S. must produce 11.2 million barrels per day if imports are to be held at 30% demand. This will require drilling at least 1,000,000 wells in the next decade at a cost of over \$620 billion.

### CAN IT BE DONE?

All the oil America has produced since 1859 has come from only 2% of the country's prospective sediments. Experienced explorers know that the other 98% of geologic sediments can keep the U. S. reserves and production at healthy levels. To keep oil reserves and oil use balanced, we must regularly find three billion barrels of new oil every year — the equivalent of

a new Prudhoe Bay discovery every three years continue to be accomplished is to be certain the way of aggressive drilling of new wells.

Legislation which would destroy our ability to oil is dangerous and should be defeated before it is in jeopardy.

**INFORMATION SOURCE**  
Center for Strategic & International Studies; Congressional Record; Defense Energy Management Administration; Independent Petroleum Association of America; Oil and Gas Journal; Petroleum Intelligence Review; U. S. Energy Information Administration; U. S. Energy Annual Report to the US Congress; U. S. Energy; U. S. Treasury 1984 Report to the President



# ANGERS NATIONAL SECURITY!

## Oil imports puts U.S. safety in hands of desert sheiks

DS

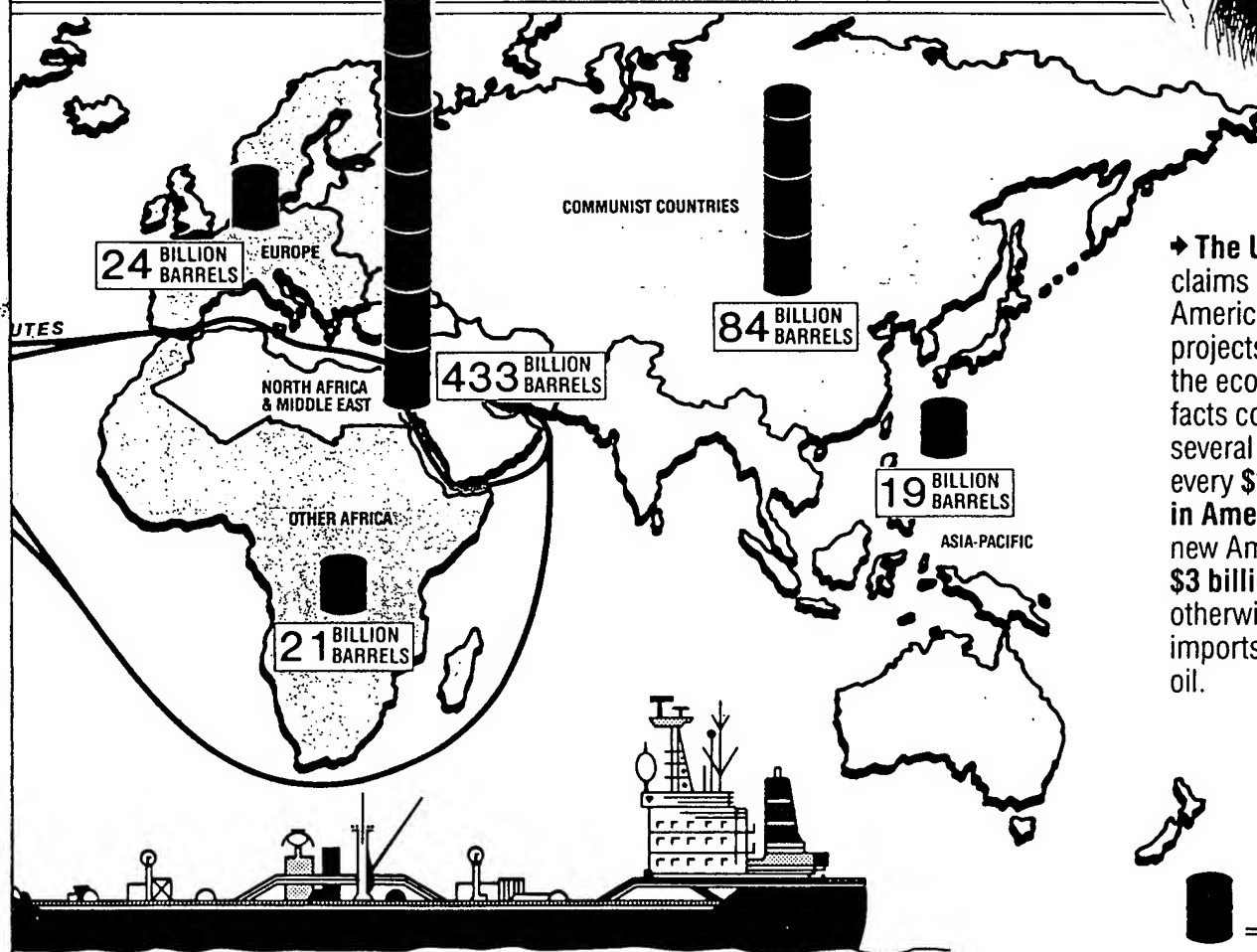
shall, in the light of the requirements of national economic production needed for projected national economic investment, exploration and development to meet national security requirements."

Trade Expansion Act of 1962, Section 232.  
(Administered by Secretary of Commerce)

**Error?** The 1985 U. S. Department of Energy authority, to make decisions affecting the security of the country through the back door of tax policy. The Energy Security Act by designing a reduction of one step with historical and current national defense is not up to the architects of the plan, but to the members must answer to the American public for any defense and national security.

"The Golden Age of Arab oil was not in the seventies but will be in the nineties of this century."

Sheik Amad Zaki Yamani  
Ministry of Petroleum and Mineral Resources  
Saudi Arabia



➔ The U. S. Treasury claims that investments in American oil and gas projects are wasteful to the economy. But the facts compiled for the last several years show that every \$1 billion invested in American jobs to find new American oil saves \$3 billion that would otherwise be spent for imports of more foreign oil.

### ➔ A VULNERABLE CHAIN OF FIFTY-MILE LINKS

In order to import 5,000,000 barrels of oil per day from the Middle East area, tankers must travel from 9,000 to 15,000 miles, with the most common routes being about 11,000 miles long. Regardless of the distance, lines of fully-loaded, average-sized tankers must be constantly enroute to U. S. ports at about 50 miles apart, and a similar chain of empty tankers must be making the return trip. This huge fleet of "floating bombs" would be almost impossible to protect in the event of war or other hostile action against shipping on the high seas. As sitting ducks for the Soviets' huge fleet of atomic submarines, American dependence on such a vulnerable, fragile supply line is feared by defense experts in the Department of Defense, the CIA, the State Department, the Joint Chiefs of Staff and the U. S. Navy. They unanimously recommend that every effort be made to avoid such obvious danger to American security by developing onshore and offshore oil and gas in the United States.

At the Williamsburg Summit, the United States was a leader in recommending that our allies do everything possible to develop their own petroleum resources or alternatives to imported oil, and the President committed America to do the same. Henry Kissinger has called U. S. dependence on oil imports "a serious erosion of political power of the United States and its allies relative to the Soviet Union."

Even if America remains at peace and such countries as Saudi Arabia remain our staunch friends, the Middle East oil supply could again be cut off overnight because it is situated in the world's most unpredictable, volatile region of perpetual terrorism, political blackmail, insurrection and war.

The Treasury Department has failed to explain why their recommendation to cut American oil drilling and production and depend on imports can possibly be judged as anything but threatening to the safety of the United States.

The only way this goal can be achieved is if no legislation stands in the way.

find and produce America's own oil. Our national security is put at risk.

Source: Chase Manhattan Bank; Energy Management Plan; Energy Petroleum Association of America Weekly; Secretary 1985; U. S. Department of Energy; Washington Post.

Building, Dallas, TX 75206

# WHEN THE OIL AMERICA NEEDS IS CONTROLLED BY SOMEBODY ELSE, THEN SOMEBODY ELSE CAN CONTROL AMERICAN DEFENSE DECISIONS

The U. S. Department of Defense is the nation's largest consumer of petroleum even in peacetime, and petroleum use is projected to quadruple in the event of war. Trucks, airplanes and ships of today's military forces, and key weapons systems on the drawing board, all operate only on liquid petroleum. In 1984, 93% of all the petroleum purchased by the military was used for mobility of defense equipment. It would be an unforgivable oversight to spend hundreds of billions of American tax dollars for the finest defense machines ever seen on land, sea, and air, and then fail to be absolutely certain that we have adequate, ready and reliable fuel supplies to insure their operation. Without petroleum, U.S. Army vehicles remain parked, U.S. Navy ships stay docked and U.S. Air Force planes do not fly.

Domestic American Oil must always be available for the nation's defense. Five to 15 years are required to bring a newly discovered oil field into full production. Unless oil is produced continuously, and aggressive exploration continues to replace dwindling American reserves with new discoveries, the U. S. oil industry will be strangled into rusty, undermanned ineffectiveness. It will be unable to provide emergency supplies of oil when they could be most urgently needed for the protection of Americans. American security efforts demand measures for maintaining and increasing U. S. oil production.

The U. S. Treasury has wrongly argued that American oil is "no longer needed," and has proposed that investments in American oil production be forcibly reduced. They have concluded that America should be dependent on "other sources" for oil. But even such friends as Canada and Mexico have restricted petroleum exports to the U. S. In the early 1970's, Middle East producers used embargos to retaliate against U. S. policy. The best prophet of the future is the past, and the threat of oil cutoffs to mold U. S. foreign policy should not be permitted again.

An Oil-Dependent America would be virtually paralyzed by simply closing the valves to our national lifeblood of oil. Plans like, or similar to, the Treasury plan are patently damaging and dangerous to the nation's defense posture. Any tax plan which tends to reduce the number of wells drilled for new oil and gas should be rejected by the Congress.

